

friends OF THE LAKE DISTRICT

Adrienne Monroe,
Manager, Price Control Review,
OFGEM,
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28th March 2003

Dear Adrienne,

Developing network monopoly price controls – update document

Friends of the Lake District (FLD) are a registered charity, established in 1934, with the aims of protecting and conserving the landscape of the Lake District and Cumbria. We have around 7000 Members, represent the CPRE in Cumbria, and are Members of the Council for National Parks. Issues of electricity distribution have featured throughout our history, and we have contributed to many schemes to underground overhead wires throughout Cumbria. Our interest in the subject is so great that we commissioned UK CEED to update the research work published by the then Countryside Commission in the early 1990s. This work was published in March 2003, and OFGEM received copies of the short and full report. Our Vice Chairman attended the OFGEM workshop in London on the DPCR in February.

We have the following comments to make on the document.

Para 3.3

This notes that ‘Respondents ... pointed out that consistency (in price controls) should not be pursued at the expense of solutions that are necessary to meet the specific requirements or circumstances of a company or sector. It is also suggested that OFGEM should seek to identify best practice in regulation by looking at other regulators abroad ...’ We fully concur with these statements.

Chapter 4 : Assessing costs and incentives for efficiency

We are disappointed that OFGEM’s further thoughts still do not reflect our concern about the narrow focus on efficiency, and the need we have previously expressed for landscape targets and an environmental/amenity fund as well as purely efficiency targets. An over dominant focus on efficiency is leading to less environmental enhancement work and to the lowest cost routes for power lines being adopted, rather than those with the least visual intrusion. When cost assessments are made, there is a need to consider the extra costs of works in designated landscapes, especially those which are uplands, and the need for

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OFGEM and DNOs to meet the statutory purposes of the National Parks and AONBs.

In the summary, the document notes 'that having the lowest possible cost for a particular activity does not necessarily imply greatest efficiency, because of trade-offs with other elements of cost and with outputs delivered'. We support this, since efficiency should be interpreted relative to the delivery of important outputs, and not be misinterpreted as simply lowest unit costs.

We fully support para 4.4 which notes 'In projecting the future level of costs that an efficient company would be expected to incur, it is necessary to consider the companies' own forecasts and, in particular, how they have been derived, including the assumptions that have been made'. We hope that DNOs will disclose in their business plans to OFGEM how they intend to meet their various environmental obligations, so they can be tested. This fits with the intention (para 7.31) to allow more time for this stage of the process, and (para 7.39) the suggestion that 'companies ... publish their business plans', and that these submissions are subjected to some form of 'audit'.

Chapter 5 : Developing the overall incentive and price control framework

Consumer survey

With reference to the proposed assessment of consumers' preferences and willingness to pay, we are delighted that OFGEM are proposing to undertake such a study, and that it may refer to environmental and social issues and to the views of consumers on the impact of overhead lines on visual amenity and willingness to pay (para 4.6 appendix).

It is our view that the study should focus not just on quality and security of supply issues, but also issues of landscape quality and the visual intrusion of electricity infrastructure in rural areas. Loss of supply in storms may only affect a few people. In addition, the survey should focus not on electricity consumers alone, but on public attitudes in general. Consumers can be asked key questions such as the acceptability of environmental surcharges and ways of spending the additional resources which should include spending on low voltage undergrounding schemes or other enhancement works. Public attitudes in general would focus more on issues such as the concern about the presence of overhead power lines in the countryside; the relative merits of different constructions ie poles, pylons etc; whether there should be a different approach to such constructions in designated landscapes such as AONBs and National Parks. Surveys should not simply seek the consumers' attitude to willingness to pay for a big investment plan for undergrounding, but should assess attitudes to overhead lines in the landscape in general, willingness to pay (e.g. £1 - £2 a year), and where they would like the money targeted. The survey must give examples of things which are taken to be 'environmental' issues. For example, the references to the Kyoto talks, and environmental benchmarks such as those of the Electricity Association relate to issues such as reducing pollution and emissions, they rarely relate to landscape impacts. Unless clear questions and examples are given about environmental and landscape issues, it will be easy to mislead or confuse the public.

Care must be taken to assess the views of the 'urban' population and the 'rural' population separately. For example, as the majority of underground lines are in urban areas, issues of line intrusivity is not really an issue to the urban population. However, to rural dwellers and countryside users, intrusive wires could be an important issue, as is the higher cost of undergrounding, etc. A survey could easily be biased if it is not sufficiently structured to reflect the different issues in rural and urban areas. Focus groups may well help here.



As part of stage one, it is worth considering a focus group of environmental/landscape organisations, e.g. Wildlife and Countryside Link who come together to give key responses to major policy issues, such as the reform of the Common Agricultural Policy, Ministry of Defence rural policy, etc. *We would be very happy to help with the detail of any survey questionnaire which related to landscape and amenity issues.* Stage three must involve consumers/the public in a range of countryside areas and designated landscapes. Again we could help with this if necessary. The full research report produced for FLD by UK CEED has a section on previous consumer/public attitude research and it may be worthwhile looking at this.

Incentives, outputs and targets

We recognise that it is not OFGEM's role to set environmental policy in this area. One effective strategy would be to require DNPs to collaborate with NPAs and other designated/protected area bodies to develop a series of targets that would remove overhead lines in sensitive landscapes within a timeframe of 10 – 20 years. This would build on the 1994 Position Statement of the then Countryside Commission, and give tangible effect to the duties on electricity companies and OFGEM towards National Parks and AONBs. The cost implications of these targets could then be included in the DNO business plans for consideration in DPCR. This relates back to para 5.14 where it is recognised that OFGEM “will also need to consider whether it is appropriate to provide DNOs with incentives in any other areas including on the environment” and to para 4.6 in the appendix:

Chapter 7 : The next DNO price control review

Para 7.7 refers to one response to the DPCR highlighting OFGEM's statutory responsibilities in relation to National Parks. We assume this was the submission by ourselves. However, we also pointed out that OFGEM also has a statutory responsibility to Areas of Outstanding Natural Beauty and we are disappointed that this has been omitted. We reiterate this duty below :-

Section 85 of the Countryside and Rights of Way Act 2000 states that “In exercising or performing any functions in relation to, or so as to affect, land in an area of outstanding natural beauty, a relevant authority shall have regard to the purpose of conserving and enhancing the natural beauty of the area of outstanding natural beauty”. Statutory undertakers are included as being relevant bodies.

We hope the section 85 duty will be added to future documents.

We also find it strange that the DTI letter on social and environmental responsibilities did not refer to the requirement on all Government departments and bodies to show that their policies have been subject to the Rural Proofing Checklist. Good practice would suggest that OFGEM should consider the Rural Proofing Checklist when developing policies, and in particular points 3, 14 and 15 of the checklist.

Developing the regulatory framework for distributed generation

We would be concerned if the potential increases in distributed generation led to the need for the further development of the electricity distribution network, and in particular to insensitive developments in countryside areas and designated landscapes. Again this relates back to the statutory duties on all DNOs to have regard to National Parks and AONBs. Section 7.27



therefore needs to consider some incentives for DNOs to consider potential environmental disamenity issues and to have regard to them.

However, despite these concerns, on the positive side, we can see some potential to reduce the need for additional system reinforcement by the use of distributed generation, as is recognised in para 7.27. If this was the likely scenario, rather than the above, we would be fully supportive, in effect, using least cost planning approaches to confer tangible benefits to sensitive landscapes.

In terms of rebates for DUOS, we would suggest that where DNOs recover more revenue than is allowed under the price control, that the additional revenue could go into the environmental fund we refer to above and in our last submission to fund environmental enhancement works.

We support OFGEM's intention to produce impact assessments for any significant new policies initiated by OFGEM, including effects on the environment (para 7.9).

We hope that our comments are helpful and will be taken into account. If we can be of more help or you would like a meeting, please do not hesitate to contact us.

Yours sincerely,



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